

California Debt and Investment Advisory Commission

"The Plan of Finance"

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presented by:

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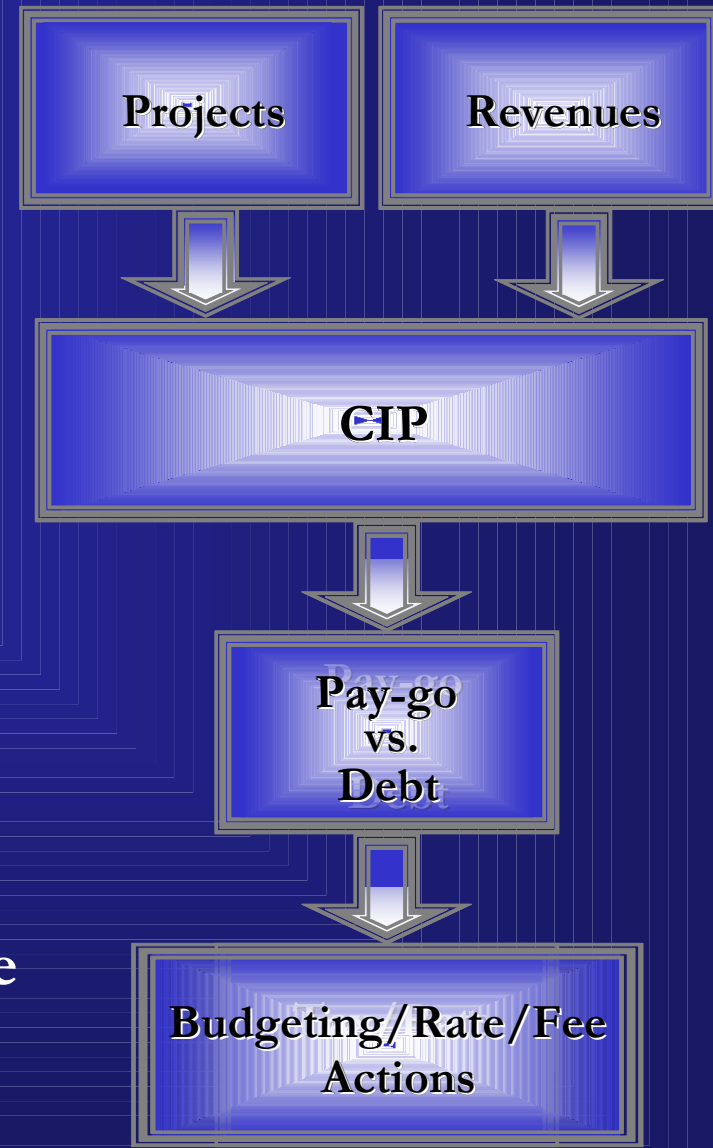
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Why A Long-Range Financial Plan?

- Articulate the strategic vision
 - ✓ Prioritize needs
 - ✓ Manage revenue streams
 - ✓ Demonstrate project feasibility within policy goals
 - ✓ Develop rate-setting/budgeting plan
 - ✓ Determine strategies for minimizing borrowing costs
 - ✓ Increased relevancy for disclosure



Who Cares?

➤ Governing Bodies

- ❖ Long-term road map and guidelines
- ❖ Oversight - stakeholders

➤ Taxpayers/Ratepayers

- ❖ How will taxes/fees be used?
- ❖ Any tax/fee increases needed to complete program

Who Cares?

➤ Investors want to know:

- ❖ How much debt issued now?
- ❖ Additional debt to complete program? When?
- ❖ Ability to maintain credit quality

Top 10 Investors

Management Company	Par Amount
ALLSTATE INVESTMENTS LLC*	64,275,000
NUVEEN ASSET MANAGEMENT	36,130,000
FRANKLIN ADVISERS, INC.	24,000,000
VANGUARD GROUP, INC.	21,620,000
PUTNAM INVESTMENT MANAGEMENT, L.L.C.	18,300,000
FIDELITY MANAGEMENT & RESEARCH (US)	14,885,000
BLACKROCK FINANCIAL MANAGEMENT, INC.	13,980,000
CAPITAL RESEARCH & MANAGEMENT CO.	13,235,000
AMERICAN CENTURY INVESTMENT MGMT. (CA)	10,400,000
MORGAN STANLEY INVESTMENT MANAGEMENT INC. (US)	8,400,000
TOTAL	225,225,000

➤ Rating Agencies want you to:

- ❖ Demonstrate sufficiency of funding/funding flexibility needed to complete projects
- ❖ Demonstrate ability of governmental unit to plan for construction process and contingencies



Components of Financial Plan

➤ Projects

- ❖ Identify, prioritize projects
- ❖ Cost estimates
 - Incorporate both capital and operating costs for new projects

❖ Forecasts

➤ Funding Sources

- ❖ Longevity
- ❖ Revenues
 - Historical and projected
 - Availability, reliability, flexibility

➤ Policies/Ratings/and other Policy Goals Target

- ❖ Debt policy
- ❖ Ratings targets
 - Determine degree of leverage
- ❖ Other limitations (rate increases)



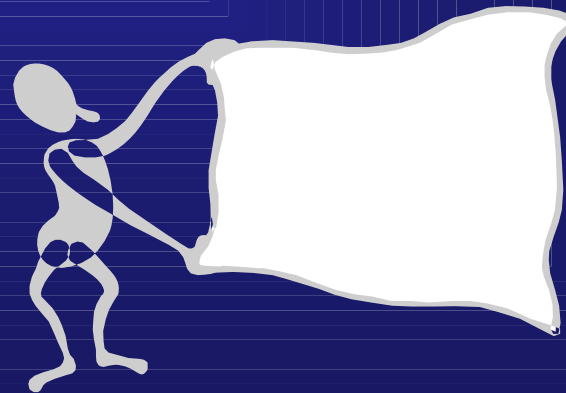
Components of Financial Plan (Cont'd)

➤ Governmental Structure

- ❖ Which entity issues debt?
- ❖ How will these groups interact?
 - Project oversight
 - Financial oversight

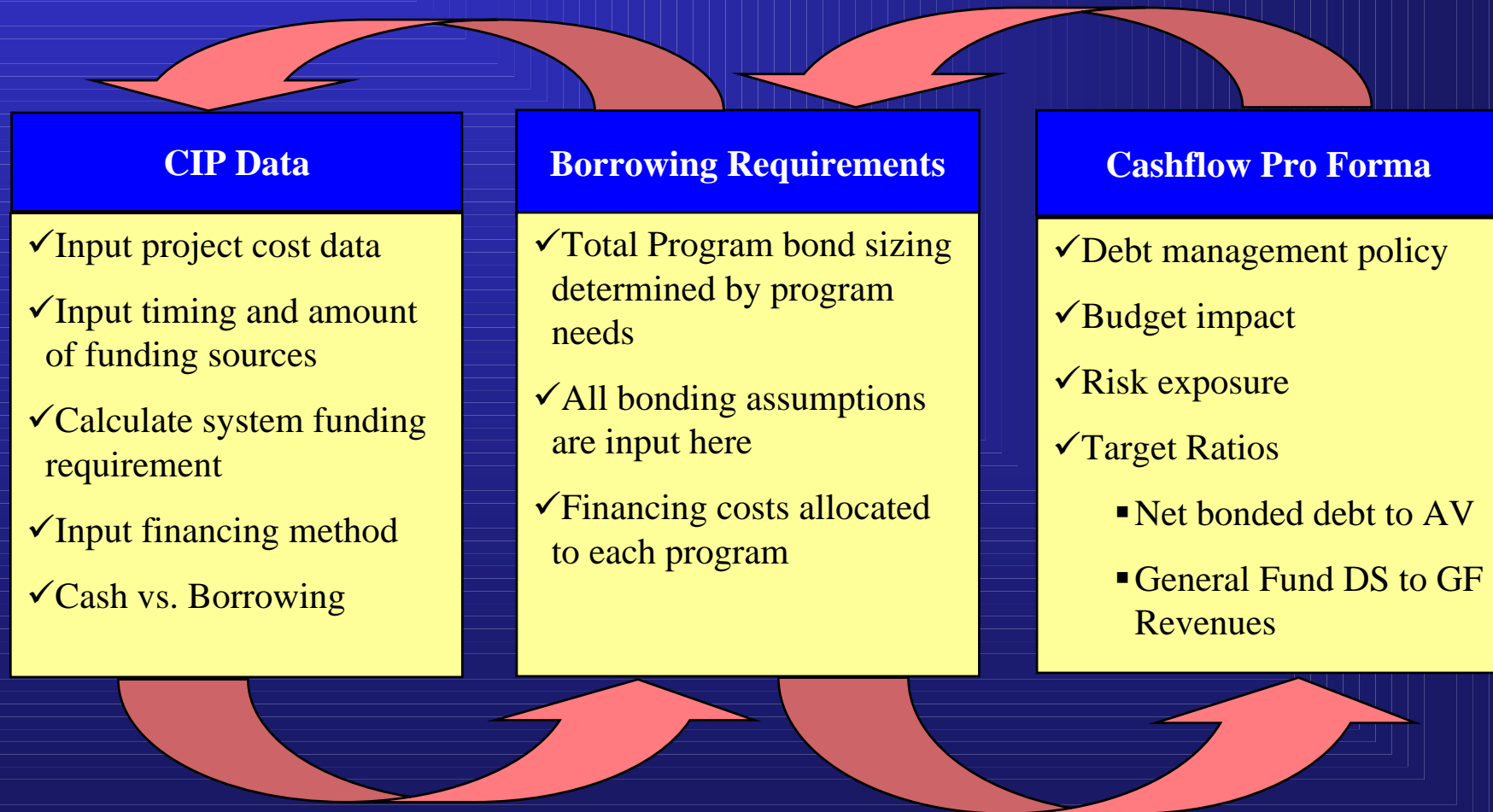
➤ Legal Framework/Constraints

- ❖ Authorization to levy taxes/fees
- ❖ Authorization to issue debt
- ❖ Federal tax law governing the sale of bonds



Using a Long-Term Planning Model

- Iterative process that balances spending needs, available cash flow and borrowing requirements



Framework for Optimizing Debt Issuance

**When Borrowing is
Required**

Existing Debt Profile

- Snapshot of Existing Debt

- ✓Term
- ✓Structure

Financial Risk Assessment

- Establish Sound Asset/liability management

- ✓Fixed/Floating
- ✓Derivatives

Optimizing Cash Resources

- Determine highest and best use of cash

- ✓Equity Contributions

Refunding Opportunities

- Look for savings

- ✓Restructuring
- ✓Refunding Efficiencies

Plan of Finance

On-Going Management of CLP

- Good long-range financial plan allows for
 - ❖ Proactive vs. reactive management
 - ❖ Methodology for capital replacement or capital maintenance
 - ❖ Continual dialogue with stakeholders
 - ❖ Responsiveness to market opportunities
 - ❖ Financial flexibility